

**MINUTES**

**MONTANA SENATE  
59th LEGISLATURE - REGULAR SESSION**

**JOINT SELECT COMMITTEE ON EDUCATION FUNDING**

**Call to Order:** By **CHAIRMAN DON RYAN**, on February 15, 2005 at  
8:15 A.M., in Room 102 Capitol.

**ROLL CALL**

**Members Present:**

Sen. Don Ryan, Chairman (D)  
Rep. Bill E. Glaser (R)  
Rep. Holly Raser (D)  
Sen. Bob Story Jr. (R)

**Members Excused:** None.

**Members Absent:** None.

**Staff Present:** Connie Erickson, Legislative Branch  
Eddy McClure, Legislative Branch  
Jim Standaert, Legislative Branch  
Lois O'Connor, Committee Secretary

**Please Note.** These are summary minutes. Testimony and discussion  
are paraphrased and condensed.

**Committee Business Summary:**

Continued discussion on education funding.

**{Tape: 1; Side: A; Time Counter: 1.0}**

**Jim Standaert, Legislative Fiscal Division**, provided an overview of the net impact on mill levies if the revenue from the HB 124 block grant were eliminated from the district general funds--the HB 124 block grant includes the old HB 20 and SB 417 reimbursements. The second step would be how the state would use the money.

**EXHIBIT(jes37a01)**

**Mr. Standaert** said that the total \$46 million is not available for redistribution because, even though \$46 million was saved, another \$17 million was paid in guaranteed tax base (GTB). The total net amount available to the state is \$29 million for redistribution.

**{Tape: 1; Side: A; Time Counter: 5.0}**

**Lance Melton, MT School Boards Association (MTSBA)**, asked if the state would see only a slight increase in GTB by incorporating the oil and gas revenue due to the property tax wealth in those districts. **Mr. Standaert** said yes. **Madalyn Quinlan, Office of Public Instruction (OPI)**, added that many districts are eligible for GTB but do not draw upon it because they have oil and gas revenue.

**SEN. RYAN** asked if any revenue received by Peerless was replaced with GTB. **Ms. Quinlan** said that usually, an elementary district cannot exceed 50 mills because of the way the GTB kicks in. **Mr. Melton** said that an additional consideration should be the districts that are over their maximum budgets will be the districts that are going to get the least amount of relief if more money is not put into the system. He suggested adding another column showing the extent to which a raise in the BASE budget of a district will displace over-BASE taxes.

**{Tape: 1; Side: A; Time Counter: 13.5}**

**Amy Carlson, Office of Budget and Program Planning (OBPP)**, felt that the available revenue should be used to equalize the districts when the state rolls retirement into the general fund which will be expensive to do upon implementation. **Mr. Melton** added that the Subcommittee should also know what percentage of students were going to be devastated even with the \$81.22 million package. He suggested using the money to narrow the gap between SB 177 and the inflation trend line because it would be a far better claim in satisfying the Court's ruling if the funds were committed to eliminating as much harm as possible in the

existing funding formula. **Ms. Carlson** said that OBPP will receive current ANB figures from OPI, but by averaging the averages and using SB 177 along with special education numbers, the increases seem reasonable with declining enrollments.

**{Tape: 1; Side: A; Time Counter: 22.0}**

**SEN. RYAN** said that the Subcommittee exists to build a new funding formula not debate next year's school budgets based on proposed legislation. He felt that the Subcommittee's decision to reconsider and review how HB 124 revenue is distributed to schools was a right decision because it is educationally relevant. **REP. WILLIAM GLASER, HD 44**, said that it may be a few more days before **Mr. Standaert** receives the true ANB figures to prepare a chart. **Ms. Quinlan** said that the figures given **Mr. Standaert** were fall enrollment counts by budget unit which he used as a proxy for what next year's ANB will be. Spring enrollment counts are usually 30% less than fall enrollment counts. The current data would probably be alright to use for the chart.

**Mr. Melton** said that he could make a credible argument that the HB 124 block grant money not be touched because whatever is done with it is going to impact the ultimate solution. He said if the Subcommittee's only concern is to develop a new funding formula, he suggested that it agree to freeze everything and not change any element of the formula because it will need every dime it can get to satisfy the Court's ruling.

**{Tape: 1; Side: A; Time Counter: 26.7}**

**Ms. Quinlan** felt it wise to use the HB 124 block grant and oil and gas revenue to equalize school districts before the infusion of money comes into the system because the winner and loser districts may be easier to deal with now. She added that putting money into K-12 SHIP makes sense because it addresses an important need for schools. She added that the discussion heard when the HB 124 block grants were first created was to try to put the money through the equalization system not a property tax replacement. Although the idea was not right at the time, it may be the way to go currently. **Mr. Melton** said that there was the possibility of implementing elements of both with the \$29 million, including increasing eligibility. On a biennial basis, there would be approximately \$60 million. K-12 SHIP's cost is approximately \$48 million leaving only the gap to fund.

**{Tape: 1; Side: B; Time Counter: 3.3}**

**SEN. STORY** said that HB 124 block grant money was originally local money. If the state wanted to reimburse them, they had to raise their mill levies in order for the state to receive taxable value from the districts. He felt that business equipment tax revenue was evenly distributed other than in a couple of counties. The problem was that the remaining revenue was unequally distributed. He asked what the benefit was by making districts adjust now rather than later. **Ms. Quinlan** said that there are a number of districts that have access to revenue that other districts do not have, such as oil, gas, and coal mining revenue. Pockets of wealth create many problems. If the access-to-revenue playing field is leveled now, it may be easier to deal with the questions raised later about reorganizing the funding system. **Ms. Quinlan** said that she was not suggesting that the state take the oil, gas, and coal mining revenue away from districts. She is suggesting that it be pulled from the block grant or the natural resources taxes and be redistributed on an equal basis. **Mr. Melton** said that taxpayers are willing to fund schools and would be much more tolerant of a tax increase if they hear their school districts saying that they are far better for it. No matter what is done, the districts with the largest tax increases will scream the loudest.

*{Tape: 1; Side: B; Time Counter: 7.8}*

**SEN. RYAN** said that when oil and gas revenue, vehicle taxes, and business equipment taxes were allowed to remain at the local level, it was a trade off. It was agreed that certain communities would benefit from oil and gas revenue, certain communities benefit from other revenue, and they would benefit without the HB 124 revenue. The Legislature then took the vehicle revenue and locked it up. **Ms. Quinlan** said that in 1989 when oil, gas, and coal revenue was taken out of the property tax base and moved to a flat tax, the deal was that oil, gas, and coal revenue would not be subject to the revenue-neutral rate set--the rate would not have any add on for the 40-mill statewide levy that all other property taxpayers paid. The motor vehicle revenue moves took place well before that time. When HB 124 was developed, there was talk about rolling in oil, gas, and coal mining revenue. **Mr. Melton** said that at the time, the MTSBA fought that concept very hard because it was hearing so much from its members. However, they would be much more willing now to consider that as part of an overall fix that addresses the adequacy of funding. The affected districts understand the concept of using the revenue but would like to see some increase in budget authority which they sorely need.

*{Tape: 1; Side: B; Time Counter: 11.0}*

**SEN. STORY** said that oil and gas revenue is the only thing that some districts have. The question is, what do the districts have as their tax base? **SEN. RYAN** said that the K-12 School Renewal Commission discussed the concept of a statewide, homeowner equity system. Then all homeowners and children have access to the same amount of revenue, and it becomes a local decision as to how much they spend and how much their mills raise. The Commission felt it could be an understandable concept to the public.

*{Tape: 1; Side: B; Time Counter: 13.6}*

**SEN. STORY** said if an analysis could be done, there may not be huge disparities in mill levies on homeowners. **Ms. Quinlan** said that there would not be huge swings in mills because the state subsidy compensates when nonlevy revenue goes away. She said that the GTB-aid concept works well for the state because it receives a lot of equalization for the amount of state money that goes in under GTB aid. The more the state utilizes that system, the more it can use state money to get an equalized system. **SEN. RYAN** said that is why it is important to use GTB for equalization all of the way to the 100% level because it eliminates rich and poor districts. The ability to raise revenue above the BASE creates the inequity across districts.

*{Tape: 1; Side: B; Time Counter: 16.4}*

**SEN. GLASER** said that the 100% concept would radically change the way school districts react based on how much GTB they get. For example, districts that receive almost 100% GTB can run up to 100% immediately because they receive significant federal funds to help them out. On the other hand, districts that do not receive GTB support and are frugal would slip back to the 80% to 85% level. Simply changing everything from 80% to 100% GTB does not necessarily solve the problem. The Subcommittee needs a short-term method of funding that goes along with the long-term concept that provides the infusion of cash necessary for districts to survive.

**SEN. GLASER** added that if the Legislature starts stealing all of the revenue to solve the short-term problem, any big-bang theory as to solving the problem with the least amount of pain is not going to happen. He felt that the state should solve as many problems as possible with the \$80 million that is currently available and then solve the other problem of small schools. Solving the problem for the small schools in the short term will cost between \$250,000 and \$750,000 for 40 to 50 low-end schools. He hoped that the end solution would be a big bang where everything gets sucked in and is spread back out evenly. If that does not happen, it will become very painful.

**{Tape: 1; Side: B; Time Counter: 20.4}**

**Eric Feaver, MEA-MFT**, said that if the Legislature is waiting on an over-night, big-bang theory, it is never going to have a big-bang. During the 1989 Legislature, deals were being made behind many closed doors that did not include any representatives from the education community. However, the Legislature and stakeholders can make the big-bang happen over time if the funding system is incrementally implemented.

**Mr. Feaver** added that the key to getting the state out of the education mess is the recruitment and retention of teachers. The only bill before the Legislature that will do that is HB 124. All other bills do nothing but add money on the top of an already failed system. If the state is just going to add money on top of a failed system and wait for the big bang, there will be a big bang, but it will not be the kind of big bang that the Legislature wants. He urged the Subcommittee to think about how it could address the fixed costs that school districts have, and the one that can be immediately addressed is health care. He felt that the money used now would score big points, and there would be less issues to deal with in Court if it tries to do more than just wait for the big bang. In addition, legislator term limits make achieving any type of interim agreement very difficult.

**Mr. Melton** provided a chart showing per-pupil funding and teacher salary rankings.

**EXHIBIT(jes37a02)**

**Mr. Melton** saw K-12 SHIP as a way to address the recruitment and retention of teachers, to address the GTB issue in terms of local or state support for a particular spending pattern, and to address the weightedness issue that must be incorporated into a new funding formula. Committing the funds to health insurance is a way of making progressive headway, and it is also fully funded at 80%.

**{Tape: 1; Side: B; Time Counter: 28.7}**

**SEN. STORY** said that the Court would not give credit for funding toward teacher salaries. **Mr. Feaver** said that school districts have the latitude under HB 124 to do what they wish with the \$200 subsidy, part of which would be bargaining for salary. HB 124 attempts to give districts dollars that they will actually keep predicated on personnel that they will have. He said to let the dynamics of local bargaining work. When the state does or does not put money into schools, it is reflected in teacher salaries. Unfortunately, there are many people in the state who believe

that teacher salaries are a predicate of what school districts want. He said nothing could be further from the truth. HB 124 contains funding that will find its way into teacher salaries.

***{Tape: 2; Side: A; Time Counter: 1.7}***

**Ms. Quinlan** said that what the state is paying for is more teachers not higher teacher salaries. On average, the state has low student-teacher ratios. Montana is approximately 25th in the nation for expenditures for per-pupil instruction. **Mr. Melton** said that Montana's percentage of total spending going to teacher salaries is 13th. He provided an excerpt from the Augenblick & Meyers study showing personnel requirements of K-12 prototype schools to achieve desired results given specified school characteristics for small, moderate, and large schools and information on How Do You Know A "Good" School Finance System When You See One?.

[EXHIBIT\(jes37a03\)](#)

[EXHIBIT\(jes37a04\)](#)

**Mr. Melton** felt that the Subcommittee's school funding analysis should be predicated on how many teachers are necessary for how many children and making value judgements about costs associated with it. The costs should be rolled up into a per-pupil formula and use the analysis to support the cost identified in that formula. He also felt that there had to be a segregation between the analysis and how it is rolled up in order to ensure continued local control.

***{Tape: 2; Side: A; Time Counter: 8.4}***

**Ms. Carlson** asked for a suggestion on how to account for fixed costs with declining enrollments. **Mr. Melton** said that Augenblick & Meyers did a 3-year rolling average on enrollment. On an accurately constructed system, it would account for fixed costs. He said that per-pupil funding is not an evil thing, but per-pupil funding that is not rationally related to the anticipated costs through analysis is the problem. He added that he was also not opposed to a per-classroom unit.

***{Tape: 2; Side: A; Time Counter: 11.7}***

**SEN. RYAN** said that he would have to be convinced that a per-student allotment was the proper way to continue to fund schools. He felt that as small districts get smaller, the state would be in a similar situation as it is now. He believes that with local control, the state must look at schools' fixed costs because it does not want to fund empty buildings. To adequately address

this, it must look at a classroom entitlement that addresses the cost of putting teachers in classrooms. He did not want the state to get wrapped around the per-student concept again.

**{Tape: 2; Side: A; Time Counter: 17.0}**

**SEN. GLASER** said that the Subcommittee must keep in mind that on average, classrooms in Montana do not have 25 pupils. With very few exceptions, most have 15 students. When two students are lost, it means 12% of their budgets and schools are in trouble. Large school district can consolidate classrooms. He felt that the classroom unit was much more representative of what is real. When the dynamics of the classroom are known, ANB, as the primary funding system, is defective.

**{Tape: 2; Side: A; Time Counter: 19.3}**

**SEN. RYAN** asked if anyone had costed out the accreditation standards on a per-school level. **Mr. Feaver** said that accreditation standards drive instructional staff. If a school has no teacher teaching mathematics, the school is not meeting the accreditation standards, so the school finds a teacher. The teacher may be sharing that discipline with some other discipline, but that is how the state counts the delivery of the accreditation standards. He said that in its simplest form, accreditation standards are being complied with or not by whether schools have licensed professionals in the classroom delivering that curriculum.

**{Tape: 2; Side: A; Time Counter: 22.9}**

**Mr. Melton** said that the Board of Public Education also has performance and content standards. His concern when costing out the standards is that people would default to satisfying the input standards only and not give adequate consideration to performance and content standards. **Mr. Feaver** responded that he and **Mr. Melton** would have to agree upon what "No Child Left Behind" imposes upon schools versus performance standards that are embodied in the accreditation standards that will leave much of the judgment to the local school community. He added that he would be very reluctant to embrace an outcome-based measurement that would pay for schools.

**SEN. RYAN** asked how many schools are not meeting the accreditation standards and was it because they do not have the necessary teachers and, if so, how many more teachers are needed in the districts. **Mr. Feaver** said the issue is not more teachers, the issue is qualified teachers. **SEN. RYAN** said that available revenue should be put into qualified teachers to ensure that they



are in the classrooms. Then take a district's per-student amount and weight it to meet performance and content standards.

**{Tape: 2; Side: A; Time Counter: 26.8}**

**REP. RASER** said that accreditation standards should be the framework and then add all of the other features. It would just be a baseline of, at a minimum, this amount of staffing is needed to meet the standards. **REP. GLASER** felt that the state could not follow the accreditation standards as a pure system. The model that **Mr. Standaert** has prepared shows that less than 7,000 teachers would comply with the perfect accreditation standards. The state cannot do that because it would destroy Montana's school system. He said that nothing is average in Montana because it is geographically inefficient, in addition to the fact that Montana is unable to get teachers who are willing to teach four disciplines.

**{Tape: 2; Side: B; Time Counter: 1.0}**

Subcommittee members discussed whether a transmittal agreement had been met between House and Senate Leadership. They found that **REP. ROY BROWN, HOUSE MINORITY LEADER**, had not discussed the Joint Select Subcommittee nor any other education committee while **SENATE PRESIDENT JON TESTER** indicated that Leadership was willing to do whatever was necessary for the Subcommittee to keep working to address the issue. However, the problem was that the House and Senate Majority and Minority Leaders were not talking to each other.

**Mr. Feaver** said that he would provide more teacher salary information, and the information would indicate that there are many schools in the state that pay far less than average. He said that 20 years ago, Washington State had an unfunded lawsuit as well. The Court concluded just as Montana's did in 1989. The end result of the Washington lawsuit was a statewide, salary schedule where there is a matrix in law; and by a step-and-lane process, teachers know exactly what they are going to earn no matter where they teach. It is all the same. In addition, teachers bargain additional per diem issues that are supported by local taxpayers. He felt that a statewide salary structure was too much for Montana school districts to purchase across the state. However, the Legislature could make significant improvements in local school districts' ability to deal with teacher compensation by addressing fixed costs in this session. One way to do that is K-12 SHIP and HB 124 which would not only bring dollars to districts that could go into salaries but not cost the local taxpayers a dime.

Subcommittee members requested the following information:

- (1) The number of schools that are currently contributing toward health care and those that have very little to no health care;
- (2) How much are school districts paying for health insurance through local revenue, such as oil and gas revenue, and would K-12 SHIP be an offset if the local revenue was lost;
- (3) Additional information that would help address and better understand the cost and ranges of professional staff because it will have the largest impact on any funding formula;
- (4) Cost information on teachers based on experience and educational ranges; and
- (5) A copy of Wyoming's block grant formula.

**SEN. RYAN** asked if information was available on the square footage of school buildings to address fixed costs. **Ms. Quinlan** said that OPI could survey school districts for the information, but currently, schools do not report square footage. She urged the Subcommittee not to think about a building but rather the cost of an accredited program because, as the state moves into distance learning, classrooms could be located anywhere. She felt that the Subcommittee would be better off using National Planning Association information related to average square footage based on numbers of students. **Darrell Rud, School Administrators of Montana**, also cautioned the Subcommittee that many school buildings in Montana are so old and underutilized because of safety issues that the data received could be irrelevant.

**ADJOURNMENT**

Adjournment: 10.00 A.M.

---

SEN. DON RYAN, Chairman

---

LOIS O'CONNOR, Secretary

DR/lo

Additional Exhibits:

**EXHIBIT ([jes37aad0.PDF](#))**